

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re:

WSI Manufacturing, Inc.,

Chapter 11 Bankruptcy

Debtor.

Bky. No.: 03-46641

DEBTOR'S PLAN OF REORGANIZATION

Dated: July 30, 2004

Debtor proposes the following Plan under Chapter 11 of the Bankruptcy Code.

ARTICLE I

Definitions

Capitalized terms used in this Plan have the following meanings. The Bankruptcy Code also defines many terms; those definitions are incorporated by reference.

"Bankruptcy Code" or "Code" means Title 11 of the United States Code.

"Bankruptcy Rule" means a Federal Rule of Bankruptcy Procedure.

"Cheatwood Lawsuit" means that certain action captioned Mark Cheatwood and Chad Strickland v. WSI Manufacturing Company, Inc., Civ. No. CIV-02-0045-L pending in the United States District Court for the Western District of Oklahoma as of the Filing Date.

"Cheatwood Adversary Proceeding" means that certain adversary proceeding captioned WSI Manufacturing, Inc. v. Mark Cheatwood and Chad Strickland, Adversary Case No. 03-4277, pending before the Bankruptcy Court.

"Confirmation Date" means the date on which the order confirming this Plan is entered.

"Contested Claim" means 1) a claim that is not an allowed claim because Debtor or other party in interest have objected to allowance of such claim under Code § 502(b) and Bankruptcy Rule 3007; or 2) any secured or unsecured portions of a secured claim that is the subject of a motion for determination of the value of security under Code § 506(a) and Bankruptcy Rule 3012.

"Bankruptcy Court" means a United States Bankruptcy Judge for the District of Minnesota, or any other court having competent jurisdiction to issue an order in this case.

"Debtor" means WSI Manufacturing Inc., the Debtor in possession in this case.

“Effective Date” means the day following the day on which the order confirming this Plan becomes a Final Order.

“Filing Date” means September 19, 2003.

“Final Order” means an order of the Court which has not been reversed, stayed, modified, or amended and the time to appeal from or to seek review or rehearing of such order has expired. The proponent of this Plan may elect to waive provisions relating to appeal and treat any order of this Court as a Final Order and may distribute and otherwise proceed under this Plan, even if there is a pending motion to extend time for appeal or a pending appeal, unless the order is stayed.

“Patent Plaintiffs” means Mark Cheatwood and Chad Strickland, plaintiffs in the Cheatwood Lawsuit.

“Plan” means this Chapter 11 plan of reorganization as amended or modified.

“Schedules” means the schedules of assets and liabilities of Debtor on file with the Clerk of the United States Bankruptcy Court for the District of Minnesota, as from time to time amended in accordance with Bankruptcy Rule 1009.

“Wiens Lawsuit” means the certain action captioned Cheatwood et al v. Joel Wiens, Civ. No. 03-1207-M, pending in the United States District Court for the Western District of Oklahoma (the “Wiens Case”)

ARTICLE II

Treatment of Certain Priority Claims

Certain allowed claims which are not classified shall be treated as follows:

(a) Allowed administrative expense claims specified in Code § 507(a)(1), except as otherwise provided in this Article, including fees of professionals, shall be paid in full in cash on the Effective Date, or on such other date as the Court may fix, or in the ordinary course of business as the claims mature, or upon such other terms as may be agreed upon by the holders of such claims and Debtor.

(b) Allowed post-petition claims incurred in the ordinary course of Debtor’s business will be paid as such claims become due, as agreed between the holders of such claims and Debtor, or otherwise in the ordinary course of Debtor’s reorganized business.

(c) Allowed claims arising under any executory contracts or unexpired leases that are assumed by Debtor will be paid according to the terms of any order of the Court approving assumption of such contract or lease, or as agreed between the holders of such claims and the Debtor.

(d) Allowed claims specified in Code § 507(a)(8) (certain taxes) will be paid in full in cash on the Effective Date. Debtor believes there are no claims of this type.

(e) Fees payable by Debtor under 28 U.S.C. § 1930 will be paid in full in cash on the Effective Date. After confirmation, the Debtor shall continue to pay quarterly fees to the Office of the United States Trustee and to file quarterly reports with the Office of the United States Trustee on forms specified by the U.S. Trustee until this case is closed, dismissed or converted. This requirement is subject to any amendments to 28 U.S.C. § 1930(a)(6) that Congress makes retroactively applicable to confirmed Chapter 11 cases.

ARTICLE III

Classification and Treatment of Claims and Interests

Category 1--Priority Claims

Class 1-A—Priority Wage Claims. This class consists of all allowed claims of Debtor's employees entitled to priority pursuant to Code § 507(a)(3). Most of such claims have been paid pursuant to the terms of the Wage Order. The Debtor believes that there are \$1,394.93 of claims in this class, the holder of such unpaid allowed claims will be paid in full in cash on the Effective Date.

Class 1-B—Priority Employee Benefits Claims. This class consists of all allowed claims of Debtor's employees entitled to priority pursuant to Code § 507(a)(4). All such claims have been paid pursuant to the terms of the Wage Order. To the extent there remain unpaid allowed claims in this class, the holder of such unpaid allowed claims will be paid in full in cash on the Effective Date.

Category 2 – Secured Claims

Class 2-A—Secured Claim of Associated Bank. This class consists of the allowed secured claim of Associated Bank in the approximate amount of \$440,000.00 plus accrued interest in the amount of \$2,555.00 as of the Filing Date. This claim is secured by a lien on and security interest in now existing and after acquired inventory, equipment, accounts receivable and general intangibles, proceeds and products of the foregoing ("the Collateral") This claim will be paid as follows:

Treatment: The Allowed Amount of the claim shall be the actual principal outstanding on the Effective Date plus accrued and unpaid interest, fees and charges permitted under the pre-petition agreements with the Bank. The Debtor believes that that principal amount on the Effective Date will be approximately \$375,000. This amount shall be paid in one installment of \$10,000 payable on the Effective Date and the remainder paid in equal monthly installments as follows:

| <u>Monthly Payment Amount</u> | <u>Start Date</u> | <u>End Date</u> |
|-------------------------------|------------------------|-------------------|
| \$10,000 | Start Date (see below) | December 31, 2005 |

| | | |
|----------|-----------------|-------------------|
| \$15,000 | January 1, 2006 | December 31, 2006 |
|----------|-----------------|-------------------|

Such payments shall commence on the first day of the first month after the Effective Date, and continuing on the first day of each month thereafter until the earlier of (i) the date the allowed amount of the claim, together with accrued interest, is paid in full; or (2) December 31, 2006, at which time all remaining unpaid interest and principal shall be paid in full. Interest shall accrue on the unpaid balance at the rate of 1% over the Bank's prime or reference rate announced from time to time. Monthly payments will be applied first to accrued interest and then to principal. The holder of the allowed claim in this class shall retain its existing lien on and security interest in the Debtor's assets until the allowed amount of the claim and accrued interest is paid in full. Once the claim is paid in full, the lien shall be discharged and released. The holder of the claim shall take such actions and execute and deliver such documents as are necessary to evidence the discharge and release of its lien. The guaranty of this claim by Joel Wiens shall continue. On the Effective Date, Debtor and Mr. Wiens will execute such documents or take such actions as reasonably required by the Bank to evidence the repayment obligations herein and the grant and perfection of the liens securing Debtor's obligations to the Bank hereunder.

Category 3--Unsecured Claims

Class 3-A—Small Unsecured Claims. This class consists of all allowed unsecured claims that 1) are not entitled to priority and 2) are less than or equal to \$1,000 or b) are greater than \$1,000.00 but the holders of such claims have elected to have their claims come within and be treated as claims contained in Class 3-A by reducing their allowed unsecured claims to \$1,000 on the ballot accepting or rejecting this Plan. Debtor estimates total claims in this class of \$19,235. All allowed claims in this class will be paid the lesser of 15% of the allowed amount of the claim or \$150 in cash on the Effective Date.

Class 3-B—Unsecured Claim of Patent Plaintiffs. This class consists of all allowed unsecured claims of the Patent Plaintiffs in the stipulated amount of \$100,000. Debtor will pay an amount such that the distribution to this class equals 25% of all allowed unsecured claims in this class. This amount shall be paid in graduated quarterly installments equal to the amounts set forth below commencing on January 2, 2005, and continuing on the first day of each calendar quarter thereafter until an amount equal to 25% of the allowed claims in this class has been paid.

| | | |
|------------------|------------------------|---------|
| Payment Schedule | 1/1/2005 to 12/31/2005 | \$4,000 |
| | 1/1/2006 to 12/31/2006 | \$4,500 |
| | 1/1/2007 to 12/31/2007 | \$5,000 |
| | 1/1/2008 to 12/31/2008 | \$5,500 |
| | 1/1/2009 to 12/31/2009 | \$6,000 |

The Debtor will continue to produce and sell allegedly infringing products, and will enter into a royalty agreement with Patent Plaintiffs to pay to Patent Plaintiffs 7.5% of the actual sale price of such products. The first \$2,500 in royalties paid to Patent Plaintiffs in each calendar year shall be credited against the quarterly payment installments payable. Such royalty agreement will have an initial five (5) year term, renewable for an additional five year term at the option of the parties. All

allegedly infringing products in Debtor's possession prior to the confirmation of the Plan have been sold, and Patent Plaintiffs have accepted royalty payments in the amount of 7.5% of the actual sale price of such goods. The Patent Plaintiffs will dismiss the Wiens Lawsuit, and all claims of Patent Plaintiffs against Mr. Wiens shall be released, and the Debtor shall dismiss the Cheatwood Adversary Proceeding. On the Effective Date, Debtor, the Patent Plaintiffs and Mr. Wiens will execute such documents or take such actions as may be reasonably required to evidence the obligations herein.

Class 3-C—General Unsecured Claims. This class consists of all allowed unsecured claims that 1) are not entitled to priority and, 2) are not contained in any other Class under this Plan. This class shall not include any claims of the Patent Plaintiffs. Total allowed claims in this Class are approximately \$432,818. The Debtor will pay an amount such that the distribution to this class equals 20% of all allowed unsecured claims in this class provided that total allowed unsecured claims in this Class are equal to or less than \$432,818. This amount shall be paid in graduated quarterly installments equal to the amounts set forth below commencing on January 2, 2005, and continuing on the first day of each calendar quarter thereafter until an amount equal to 20% of the allowed claims in this class has been paid.

| | |
|------------------------|----------|
| 1/1/2005 to 12/31/2005 | \$10,000 |
| 1/1/2006 to 12/31/2006 | \$10,000 |
| 1/1/2007 to 12/31/2007 | \$10,000 |
| 1/1/2008 to 12/31/2008 | \$20,000 |
| 1/1/2009 to 12/31/2009 | \$30,000 |

Class 3-D—Loans by Shareholder. This class consists of all loans by Joel Wiens to the Debtor in the amount of \$38,230.65. On the Effective Date, the allowed amount of the claim shall be treated as a contribution to capital by the holder and no distribution under the Plan on account of this claim will be made.

Category 4--Equity Interests

Class 4-A—Equity Interests of Shareholder. This Class of interests consists of equity interests in the Debtor. In the event that the Plan is confirmed under section 1129(a) of the Bankruptcy Code, the equity interests in the Debtor are preserved and are unimpaired under this Plan. In the event that the Plan is confirmed under section 1129(b) with respect to classes 3-B or 3-C, equity interests in the Debtor as of the Filing Date will be cancelled and new equity interests representing 100% of the outstanding stock of the reorganized Debtor shall be issued as provided in the Means of Execution section of the Plan.

ARTICLE IV

Classes of Claims Impaired Under Plan

The following classes of claims or interests are unimpaired under this Plan: 1-A, 1-B and 4-A.

The following classes of claims or interests are impaired under this Plan: 2-A, 3A—D.

ARTICLE V

Means of Execution of Plan

(a) Equity Infusion. On or before the Effective Date, Joel Wiens shall contribute not less than \$75,000 in cash to the Debtor as and for an equity contribution. In the event that it becomes necessary to seek confirmation of the Plan under 11 U.S.C. § 1129(b), Debtor shall issue 100 shares of new common stock to Wiens in exchange for the capital contribution and Debtor will cancel all other stock outstanding as of the Effective Date.

(b) Plan Funding. Funds to be used to make payments under the Plan have been or shall be generated from, among other things, the equity infusion by Joel Wiens, cash on hand on the Effective Date and from continued operation of the Debtor's business.

(c) Administration Pending Effective Date. Before the Effective Date, the Debtor shall continue to operate its business, subject to all applicable requirements of the Bankruptcy Code and the Bankruptcy Rules. After the Effective Date, Debtor may operate its business, and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules, but subject to the continuing jurisdiction of the Bankruptcy Court as set forth in Article XIV.

(d) Post-Confirmation Fees; Final Decree. Debtor shall be responsible for paying any post-confirmation fees under 28 U.S.C. § 1930(a)(6) and the filing of post-confirmation reports, until a final decree is entered. A final decree shall be entered as soon as practicable after distributions have commenced under the Plan.

(e) Initial Officers and Directors. The officer of the Debtor on the Effective Date will be Joel Wiens, President and CEO. The director will be Joel Wiens.

(f) Corporate Action. As of the Effective Date; (a) the initial selection of the officers and Board of Directors of Debtor; (b) the adoption, execution, delivery and implementation of all contracts, leases, instruments, releases, and other agreements related to or contemplated by the Plan; and (c) the other matters provided for, under, or in furtherance of, the Plan involving action required of the Debtor shall be deemed authorized and approved in all respects without further order of the Court or further action of the Board of Directors of Debtor.

ARTICLE VI

General Provisions

(a) Payments under this Plan will be made by check, mailed with first class postage pre-paid, to the holder of each claim at the address listed on its proof of claim, or if no proof of claim has been filed by the date of the hearing on confirmation, to the address listed on the Schedules or contracts, if applicable.

(b) Except as otherwise provided, the reorganized Debtor reserves the right to designate the application of any payment on a Claim under this Plan.

(c) Initial payments and other distributions under this Plan will be made as soon as practicable on or following the Effective Date.

(d) In the event a payment is returned to the reorganized Debtor unclaimed, with no indication of the payee's forwarding address, the reorganized Debtor will hold such payment for a period of six months from the date of return. If not claimed by the payee by the end of that period, the payment shall become part of the funds distributed to holders of claims in Class 3-B as provided in Article X.

(e) If proof of a claim is required under Bankruptcy Rule 3003 and not timely filed, the holder of such claim will not receive a distribution under this Plan and will have no claim against the Reorganized Debtor.

(f) In the event this Plan is not confirmed under Code § 1129(a), Debtor request that this Plan be confirmed under Code § 1129(b).

[(g) Retiree benefits, as that term is defined in Code § 1114, shall continue after the Effective Date for any period Debtor are obligated to provide such benefits.

(h) The Articles of Organization of Debtor and related documents will be amended as required by Code § 1123(a)(6) and as may otherwise be required by this Plan on the Effective Date.]

ARTICLE VII

Contested Claims

No payment shall be made under the Plan with respect to a Contested Claim until the objection to allowance or motion for determination of the value of security has been resolved by agreement of the parties to such objection or motion or by Final Order. As soon as practicable after such resolution has been obtained by agreement or Final Order, the Debtor shall perform the treatment of such claim provided in the Plan.

ARTICLE VIII

Assumption and Rejection of Executory Contracts and Unexpired Leases

On the Effective Date, Debtor shall assume the executory contracts and unexpired leases as provided in the attached Exhibit A to this Plan. Debtor reserves the right to modify Exhibit A until the Court's order confirming the Plan becomes a Final Order. All executory contracts and unexpired leases of Debtor not listed in Exhibit A and not assumed previously are rejected on the date the Court's order confirming the Plan becomes a Final Order. The date 30 days after the date that the Court's order confirming the Plan is entered is fixed as the time within which a proof of claim must be filed for any claim arising from the rejection of an executory contract or unexpired lease.

ARTICLE IX

Retention and Enforcement of Claims or Interests Belonging to Debtor or its Estate and Objections to Claims

Except as provided in Article X, the Debtor retains and may, at its option, enforce any claim or interest belonging to itself or the estate, and may object to allowance of any claim, unless such claim, interest, or objection has been compromised and such compromise has been approved by order of the Court entered prior to the Effective Date or provided for in this Plan. Debtor may, at its option, compromise any claim, interest, or objection retained herein after the Effective Date without approval from the Court, regardless of whether such claim or interest has remained property of the estate.

ARTICLE X

Enforcement of Avoidance Actions

Debtor shall have the exclusive right as a representative of the estate to enforce the rights of the Trustee to avoid transfers as provided in Code § 550. Net proceeds of such actions shall be retained by Debtor to fund operations. Debtor shall pay for all costs of prosecuting such claims and causes of action. Debtor shall have sole discretion to (a) pursue any avoidance cause of action and (b) settle, dismiss, compromise or withdraw any claim in any proceeding to recover such claims.

ARTICLE XI

Effect of Confirmation/Releases

Confirmation of this Plan discharges, waives and releases any debt that arose before the Confirmation Date and any debt of a kind specified in Code §§ 502(g), 502(h) or 502(i), regardless of whether proof of the claim based on such debt was filed or deemed filed under Code § 501, such claim is allowed under Code § 502, or the holder of such claim has accepted the Plan. The payments of, distributions on account of, or treatments of claims in this Plan are deemed to satisfy in full all such claims. Except as provided in Article IX, all property of Debtor and the estate vests in the Debtor on the date that the order confirming the Plan becomes a Final Order. All property of Debtor and the estate is dealt with by this Plan; therefore, on the date that the order confirming the Plan becomes a Final Order, all property of the Debtor and the estate is free and clear of all liens, encumbrances, claims and interest of creditors and equity security holders, except to the extent the Plan explicitly provides that such liens, encumbrances, claims or interests are retained.

ARTICLE XII

Modification of Plan

Debtor may amend or modify this Plan in the manner provided for under Code § 1127(a) or (b). Debtor shall give notice of any proposed modification to the United States Trustee and to any other parties designated by the Court. Debtor also reserves the right to make such modifications at any hearings on confirmation as are necessary to permit this Plan to be confirmed under Code § 1129(b).

ARTICLE XIII

Event of Default

Except as otherwise provided in this Plan or as set forth in existing loan documents which continue in effect following the confirmation, default with respect to the Debtor's obligation to any creditor under this Plan will not occur unless and until such creditor has delivered written notice of such default to the Debtor and Debtor has failed to cure such default within 30 days after receipt of such written notice.

ARTICLE XIV

Plan Consummation and Continuing Jurisdiction

The Court shall retain jurisdiction until this Plan has been fully consummated for the following purposes: classification of the claims of creditors and allowance of the claims of creditors; allowance of claims for damages from the rejection of executory contracts; determination of all questions and disputes regarding title to the assets of the estate and determination of all causes of actions between the Debtor and any other party, including but not limited to any claim, interest, or objection retained under Article IX or X of this Plan; correction of any defect; the curing of any omission or the reconciliation of any inconsistency in this Plan or the order of confirmation as may be necessary to carry out the purpose and intent of this Plan, on notice or ex parte, as the Court shall determine to be appropriate; interpretation and enforcement of the terms of this Plan; shortening or extending, for cause, of time fixed for doing any act or thing under this Plan, on notice or ex parte, as the Court shall determine to be appropriate; entry of any order, including any injunction, necessary to enforce the title, rights, and powers of the Debtor; and entry of an order concluding and terminating this case. The Court may exercise its jurisdiction after notice and a hearing or ex parte, as the Court determines to be appropriate. The Plan is substantially consummated once Debtor begins the initial distributions under the Plan called for under Article II and III and is fully consummated once Debtor has fulfilled all of its obligations for payment and distributions under Articles II and III of this Plan.

Dated: July 30, 2004

WSI MANUFACTURING, INC.

By: _____

Its: _____

(e) Clinton E. Cutler

Clinton E. Cutler (#158094)

FREDRIKSON & BYRON, P.A.

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Minneapolis MN 55402

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Attorneys for Debtor

Dated: July __, 2004

WSI MANUFACTURING, INC.

By: 

Its: Pres.

Clinton E. Cutler (#158094)

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Exhibit A to
WSI Manufacturing Inc. Plan of Reorganization

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